DRAFT ANNUAL BUDGET OF

VHEMBE DISTRICT MUNICIPALITY

2014/15 TO 2016/17

MEDIUM TERM REVENUE AND

EXPENDITURE FORECASTS

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1.1 MAYOR'S REPORT

Mayor's Report

1.2 RESOLUTIONS

On 31 March 2014 the Council of Vhembe District Municipality meets at Vhembe Council Chamber to consider the draft budget of the municipality for the financial year 2014/15 to 2016/17. The Council approved and adopted the following resolutions:

The Council of Vhembe District Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.2.1 The annual draft budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:
1.2.2 Budgeted Financial Performance (revenue and expenditure by standard classification);
1.2.3 Budgeted Financial Performance (revenue and expenditure by municipal vote);
1.2.4 Budgeted Financial Performance (revenue by source and expenditure by type); and
1.2.5 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
1.2.6 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
1.2.7 Budgeted Financial Position as contained in Table 23.
1.2.8 Budgeted Cash Flows as contained in Table 24;
1.2.9 Cash backed reserves and accumulated surplus reconciliation as contained in Table 25.
1.2.10 Asset management as contained in Table 26 and
1.2.11 Basic service delivery measurement as contained in Table 27.

The Council of Vhembe District Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2014: the tariffs for the supply of water – as set out in Annexure A

1.3 EXECUTIVE SUMMARY

The 2014/15 to 2016/17 medium term draft budget was developed within the municipality budget framework, municipal budget and reporting frameworks and treasury guidelines. A total of **R1,402,825,255** for 2014/15 medium term is proposed comprising of **R690,227,036** for operating budget and **R712,598,219** for capital budget.

The municipality has experienced a positive budget growth of 7% compared to the 2013/14 financial year. The 86% of the budget funding is based on grants and subsidies provided for by the national government. The grants are utilized to fund both operating and capital expenditure.

The budget was prepared in line with the National, provincial and district priorities to ensure that services are planned according to planning guidelines.

- Table A1 Budget Summary

Description	2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year +1 2015/16	Budget Year +2 2016/17
Financial Performance										
Property rates	–	–	–	–	–	–	–	–	–	–
Service charges	–	–	41,392	79,200	79,200	79,200	–	103,701	86,750	86,750
Investment revenue	22,179	9,350	6,200	8,861	8,439	8,439	–	9,693	11,507	13,472
Transfers recognised - operational	972,368	490,379	491,630	583,073	608,117	608,117	–	633,675	693,644	763,915
Other own revenue	–	–	–	10,303	59,852	59,852	–	79,228	68,662	71,698
Total Revenue (excluding capital transfers and contributions)	994,547	499,729	539,222	681,437	755,608	755,608	–	826,297	860,563	935,836
Employee costs	183,608	151,462	–	413,499	398,230	398,230	–	412,346	434,774	458,687
Remuneration of councillors	6,242	4,553	9,335	9,546	–	–	–	9,129	9,668	10,199
Depreciation & asset impairment	83,420	64,646	–	65,000	65,000	65,000	–	–	–	–
Finance charges	1,446	–	–	–	–	–	–	–	–	–
Materials and bulk purchases	–	–	–	1,000	1,000	1,000	–	67,894	71,900	75,855
Transfers and grants	–	–	–	–	–	–	–	–	–	–
Other expenditure	–	–	–	194,140	194,140	194,140	–	203,966	214,609	226,412
Total Expenditure	274,716	220,661	9,335	683,185	658,370	658,370	–	693,335	730,950	771,153
Surplus/(Deficit)	719,831	279,069	529,887	(1,749)	97,238	97,238	–	132,962	129,612	164,683
Transfers recognised - capital	–	–	–	–	–	–	–	–	–	–
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	719,831	279,069	529,887	(1,749)	97,238	97,238	–	132,962	129,612	164,683

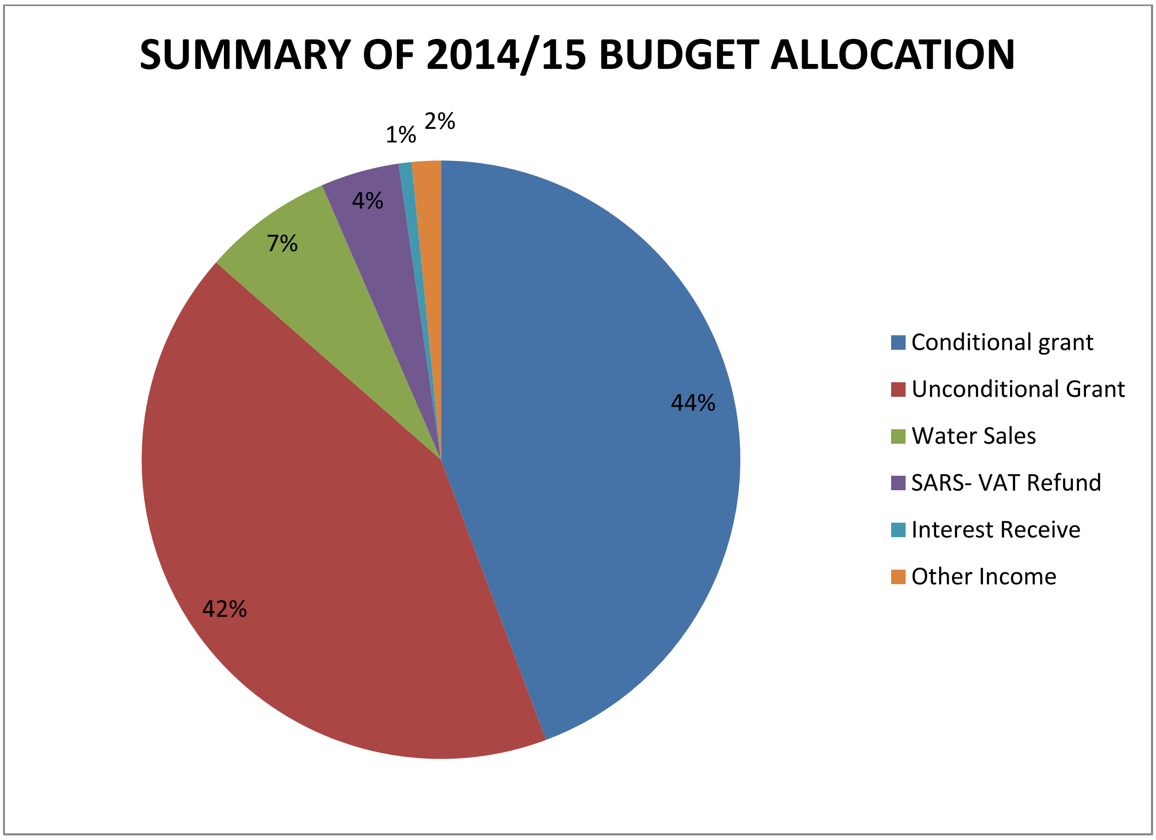
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	719,831	279,069	529,887	(1,749)	97,238	97,238	–	132,962	129,612	164,683
<u>Capital expenditure & funds sources</u>										
Capital expenditure	707,794	539,623	499,438	595,435	642,791	642,791	–	712,598	754,642	920,129
Transfers recognised - capital	–	–	499,438	595,435	642,791	642,791	–	581,594	744,744	920,129
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	–	–	–	–	–	131,004	9,898	–
Total sources of capital funds	–	–	499,438	595,435	642,791	642,791	–	712,598	754,642	920,129

1.4 REVENUE FRAMEWORK

The 2014/15 revenue is derived from grants and subsidies received from both Provincial and National spheres of government as gazetted in the Division of Revenue Act, herein referred to as DORA. Revenue is also derived from municipal own funding received through interest earned on investments, sale of tender documents, rental of property and water sales.

SUMMARY OF SOURCE OF REVENUE:

	Column A	Column B	
	2014/15 Allocations	Forward Estimates	
		2015/16	**2016/17**
Type Of allocation	**Budget**	**Budget**	**Budget**
Conditional grant	622,474,000	806,961,000	992,447,000
Unconditional Grant	592,795,000	631,427,000	691,597,000
Water Sales	98,635,367	86,750,000	86,750,000
SARS- VAT Refund	59,746,842	62,941,544	65,948,228
Interest Receive	9,692,584.00	11,507,104	13,472,352
Other Income	19,481,462.00	33,998,105.20	52,519,964.91
	1,402,909,255	**1,633,700,185.00**	**1,902,829,544.00**



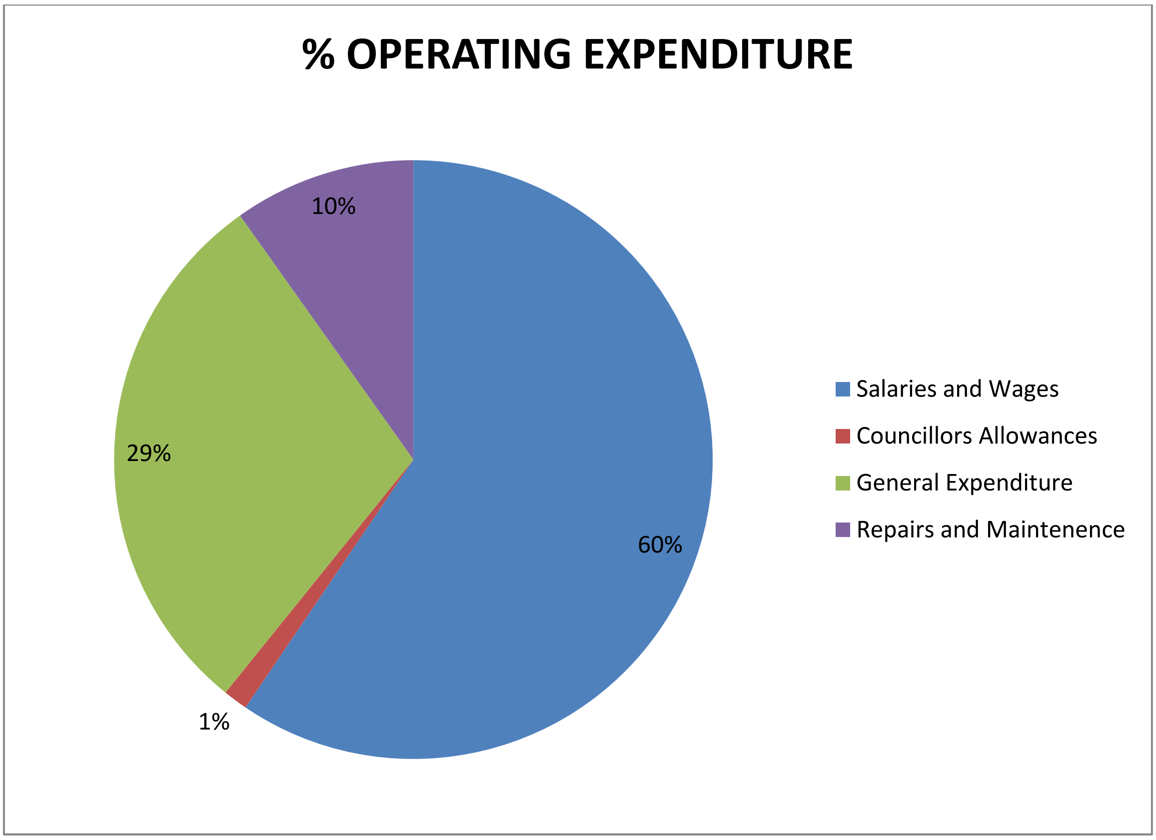
It is clear from the table above that 86% of the anticipated revenue is funded from government grants and 14% from own source. In order to sustain government conditional grants, the municipality must accelerate spending of capital projects funded from grants. Allocation of resources towards investing in water services has been intensified because water provision is the main source of revenue for the municipality. Revenue generated from water provision has been ring fenced in order to sustain water provision within the district.

1.5 OPERATING EXPENDITURE FRAMEWORK

The tabling of the 2014/2015 to 2016/17 MTREF budget is a statement of our commitment to provide municipal services to the community of

Vhembe District. The operating budget totals **R690,227,036**. The operating budget consists of the following expenditure items:

Salaries and Wages	410,551,461.68	29%
Councillors Allowances	9,128,906.87	1%
General Expenditure	202,736,351.22	14%
Repairs and Maintenance	67,894,316.23	5%
TOTAL OPERATING	R690,227,036.00	



Funding of the operating budget is mainly from the Equitable share allocation, Water operating subsidy grant received from Department of Water Affairs (DWA) and a portion of own funds.

To support the 2014/15 operating budget the Tariff structure has been reviewed and increase by CPI of 6.2 % as per guideline issued by National Treasurer

1.6 CAPITAL EXPENDITURE

The total allocation to the capital expenditure is R712 746 219 which is 51% of the total budget and it's distributed as follows:

Capital Budget	
Capital Outlay	30,852,219.00
Capital Project	681,746,000.00
	712,598,219.00

The municipality has also reviewed all the budget related policies to support the implementation of the Service Delivery and Budget Implementation Plan.

PART 2 – SUPPORTING DOCUMENTATION

2.1 BUDGET PROCESS

The budget process is an effective process that every local government must undertake to ensure good governance and accountability. The process outlines the current and future direction that the district would follow in order to meet legislative stipulations. The budget process enables the district to optimally involve residents and other stakeholders in the budgeting process.

The preparation process is guided by the following legislative, requirements:

- Municipal Finance Management Act
- Municipal Systems Act and
- Municipal Structures Act

Vhembe District Municipality Budget/Integrated Development Plan (IDP) Review processes for the 20014/15 financial year started with the development and approval in August 2013 of the “Process Plan for the Budget formulation see below schedule

BUDGET PROCESS PLAN FOR THE 2014/15 FINANCIAL YEAR

FIRST QUARTER		**JULY-SEPTEMBER 2013**		
ACTIVITY	**TASK**	**RESPONSIBLE PERSON**	**PARTICIPANTS**	**TIME-SCHEDULE**
1/1 Tabling Budget Process Plan	Tabling Development of Budget Process Plan	C.F.O, Finance Portfolio Chairperson and Executive Mayor	IDP/budget Steering, Portfolio & Mayoral committees and Council	3/16 July 2013 6/29 Aug 2013
1/2 Revenue Allocation	Determining Draft initial allocation to Votes (Departments)	C.F.O	IDP/Budget Steering Committee & Management Committee	17/18 Sep 2013
	Determining Proposed Rates & Service Charges			07 Oct 2013
SECOND QUARTER		**OCTOBER-DECEMBER 2013**		
2/1 Report of the previous year Audited statement and Annual Report	Presenting of Auditor General Report and Draft Annual Report	C.F.O & Municipal Manager	IDP/Budget Steering & Management Committees	16/23 Oct 2013 04/20/26 Nov 2013
2/3 Prepare	Issuing Budget guidelines	C.F.O	IDP Steering	02/11/18 Dec 2013

proposed Budget and Plans for the next Financial year.			Committee and Management.	
	Departmental Presentation of proposed Budget & Plans Presentation of Budget related Policies	All Departments	IDP Steering committee, Management Committees, and Local Labour Forum	
THIRD QUARTER			**JANUARY- MARCH 2014**	
3/1 Budget Adjustment	Presenting of Budget Adjustment	C.F.O	Budget Steering & Management Committees,	06/21 Jan 2014
3/2 Budget Adjustment	Submission of Budget Adjustment and Annual Report	C.F.O & Portfolio and Executive Mayor	Finance Portfolio & Mayoral Committees, Council and Budget Steering committee	14/17 & 23 Jan 2014
3/3 Reporting of Audited Statement & Annual Report				18 February 2014
3/4 Consolidate Budget and Plans for the next	Tabling of Consolidated Drafts IDP Review & Budget, Budget related Policies, Draft SDBIP and Plans for the	C.F.O, Municipal Manager & Portfolio and Executive	IDP/Budget Steering, Management,	03/07/13/19/20 Mar 2014

Financial year.	next Financial year.	Mayor	Mayoral Committees, IDP Rep Forum and Council	
FOURTH QUARTER			**APRIL-JUNE 2014**	
4/1 Approval of Budget	Submission of Draft Multi Year Budget to Stakeholders	C.F.O	National & Provincial Treasury and COGTA (DPLGH)	01 Apr 2014
	Public Participation & Consultation Process	Executive Mayor	Public	02-04 Apr 2014
	Consolidation of inputs, Finalization and Submission of Multi Year Budget.	C.F.O, Municipal Manager, Finance Portfolio Chairperson & Executive Mayor	IDP/Budget Steering, Management, Mayoral Committees, IDP Rep Forum and Council	07/21 May 2014
	Submission of SDBIP			22 May 2014
	Submission of Approved Multi Year Budget to Stakeholders	C.F.O	National & Provincial Treasury and COGTA (DPLGH)	30 May 2014
	Approval and Signing of Performance Agreement	Executive Mayor	Municipal Manager & Section 57 Managers	30 Jun 2014

2.2 OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

2.3 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

(Copy table SA8 and attach here)

2.4 OVERVIEW OF BUDGET- RELATED POLICIES

The municipality has various policies which relate to budgeting and financial management in the municipality. These Financial policies comply with the MFMA and its promulgated regulations. The following attached budget related policies were amended:

- Credit Control and Debt Collection policy
- Supply Chain Management Policy
- Indigents Policy
- Investment Policy
- Asset Management Policy
- Virement Policy

2.5 OVERVIEW OF BUDGET ASSUMPTIONS

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievements of the longer-term financial and strategic targets. The municipal fiscal environment is influenced by a variety of macroeconomic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total operating budget.

The following principles and guidelines directly informed the compilation of the budget:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP
- The tariff increases to take in to account service provision

- Division of Revenue Act
- An assessment of the capacity to implement the budget
- Expenditure trend of the current and the past three financial year
- The need to enhance the municipality's revenue base.

The multiyear budget is therefore based on the following tariff increase: See Annexure A Attached:

2.5 OVERVIEW OF BUDGETING FUNDING

The funding of the operating and capital budget per source is as follows:

	Column A	Column B	
	2014/15 Allocations	Forward Estimates	
		2015/16	**2016/17**
Type Of allocation	**Budget**	**Budget**	**Budget**
Conditional grant	622,474,000	806,961,000	992,447,000
Unconditional Grant	592,795,000	631,427,000	691,597,000
Water Sales	98,635,367	86,750,000	86,750,000
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Interest Receive	9,692,584.00	11,507,104	13,472,352
Other Income	19,481,462.00	33,998,105.20	52,519,964.91
	1,402,909,255	**1,633,700,185.00**	**1,902,829,544.00**

2.7 EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Operating grants and subsidies represent the bulk of the revenue sources of the VDM. With the abolishment of RSC levies, the VDM is totally dependent on National and Provincial grants and subsidies as revenue source.

2.8 ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

No allocation will be transferred to Local Municipalities.

2.9 COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Provision is made for an increase in Councilors by 6.2% and employee benefits Salary was increased in terms of Wage Collective Agreement for the period 1st July to 30 June 2015. The agreement provides for a wage increase based on the average CPI for the period 1st February 2012 and until 31st January 2013, plus 1.25 per cent for the 2014/15 financial year.

2.10 MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

2.11 CAPITAL EXPENDITURE DETAILS

The total allocation to the capital expenditure is R712,598,219 which is 51% of the total budget and it's distributed as follows:

Capital Budget	
Capital Outlay	30,852,219.00
Capital Project	681,746,000.00
	712,598,219.00

CAPITAL PROJECT	
Water Project	607,146,000.00
Side Walk	1,000,000.00
LED Projects	10,100,000.00
Sewer	18,500,000.00
Rural Sanitation	45,000,000.00
Total	681,746,000.00

CAPITAL BUDGET ALLOCATION

Capital Outlay	4,620,000.00
Contribution to Project	578,249,547.74
TOTAL	582,869,547.74

2.12 LEGISLATION COMPILATION STATUS

Disclosure on implementation of MFMA chapter Legislation

The passing of the MFMA into law was a key milestone that had a fundamental impact on municipal financial management that required transformation in financial discipline and planning processes.
The budget preparation for 20014/15 has met this entire key requirement.
The following are some of the MFMA areas and relative status

IDP

The 2014/15 review process is done, including public consultation as required by legislation

BUDGET

This annual budget has been develop taking the MFMA and national treasury requirements into account budget are being tabled and approved with the required legislative timeframes.

ANNUAL

The annual report has been developed in terms of the MFMA.

IN YEAR REPORT

Reports was done in terms of MFMA and National Treasury and send electronically copy National and Provincial Treasury

BUDGET AND TREASURY OFFICE

A budget and treasury office has been established in accordance with the MFMA and national treasury requirements

SDBIP

The SDBIP document is at preparation stage taking the MFMA requirements into account.

AUDIT COMMITTEE

An audit committee has been established

2.13 OTHER SUPPORTING DOCUMENTS

2.14 MUNICIPAL MANAGER'S QUALITY CERTIFICATION